

— August 5, 2004 —



Financial Management

U.S. Army Corps of Engineers
Financial Information Imported into
the Defense Departmental Reporting
System – Audited Financial
Statements
(D-2004-107)

— Department of Defense —
Office of the Inspector General

Constitution of
the United States

A Regular Statement of Account of the Receipts and Expenditures of all public
Money shall be published from time to time.

Article I, Section 9

Report Documentation Page

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Acronyms

CEEMIS	Corps of Engineers Enterprise Management Information System
CEFMS	Corps of Engineers Financial Management System
DDRS	Defense Departmental Reporting System
DOP	Desk Operating Procedure
FMR	Financial Management Regulation
GLAC	General Ledger Account Code
IG DoD	Inspector General of the Department of Defense
USACE	U.S. Army Corps of Engineers
USSGL	U.S. Standard General Ledger



INSPECTOR GENERAL
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August 5, 2004

MEMORANDUM FOR COMMANDER, U.S. ARMY CORPS OF ENGINEERS
AUDITOR GENERAL, DEPARTMENT OF THE ARMY

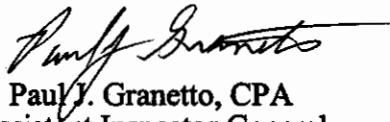
SUBJECT: Report on U.S. Army Corps of Engineers Financial Information Imported
into the Defense Departmental Reporting System - Audited Financial
Statements (Report No. D-2004-107)

We are providing this report for your information and use. We considered
management comments on a draft of this report in preparing the final report.

Comments on the draft of this report conformed to the requirements of DoD
Directive 7650.3 and left no unresolved issues. Therefore, no additional comments are
required.

We appreciate the courtesies extended to the staff. Questions should be directed
to Mr. Marvin L. Peek at (703) 325-5777 (DSN 221-5777) or Mr. Jack L. Armstrong at
(317) 510-3846 (DSN 699-3846). For the report distribution, see Appendix C. The team
members are listed inside the back cover.

By direction of the Deputy Inspector General for Auditing:



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Office of the Inspector General of the Department of Defense

Report No. D-2004-107

(Project No. D2004FI-0067)

August 5, 2004

U.S. Army Corps of Engineers Financial Information Imported into the Defense Departmental Reporting System - Audited Financial Statements

Executive Summary

Who Should Read This Report and Why? DoD and U.S. Army Corps of Engineers (USACE) accounting personnel who prepare the USACE Civil Works financial statements should read this report. It discusses undocumented adjustments in the USACE Civil Works financial information that resulted in the loss of an audit trail between the financial statements and the Corps of Engineers Enterprise Management Information System.

Background. The USACE Finance Center provides operational finance and accounting support for USACE and prepares the USACE Civil Works financial statements. The USACE Civil Works principal financial statements consist of a consolidated balance sheet, a consolidated statement of net cost, a consolidated statement of changes in net position, a combined statement of budgetary resources, and a combined statement of financing. The three financial systems USACE accountants use to prepare financial statements are: the Corps of Engineers Financial Management System, the Corps of Engineers Enterprise Management Information System, and the Defense Departmental Reporting System – Audited Financial Statements. USACE must transfer the data from its accounting system into the Defense Departmental Reporting System – Audited Financial Statements. Audit trails that trace transactions from their initial source through all stages of related system processing are mandatory Federal financial system requirements.

Results. The financial information imported into the Defense Departmental Reporting System – Audited Financial Statements and then used to prepare the USACE Civil Works financial statements was unreliable. The USACE Finance Center did not have effective controls to ensure the reliability of accounting information transferred from the Corps of Engineers Enterprise Management Information System to the Defense Departmental Reporting System – Audited Financial System. During the transfer process, Finance Center personnel made \$3.1 billion (net value)* in undocumented adjustments at year-end FY 2003, and \$(323.8) million (net value) in undocumented adjustments at first quarter FY 2004. USACE should update its current operating procedures to comply with DoD policy and Federal system requirements. (See the Finding section of the report for the detailed recommendations.)

* The net value is the arithmetic sum of all undocumented adjustments. Parentheses indicate a negative value.

Management Comments. The U.S. Army Corps of Engineers concurred with the recommendation; therefore, no further comments are required. See the Finding section of the report for a discussion of management comments and the Management Comments section of the report for the complete text of the comments.

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Background

U.S. Army Corps of Engineers. The U.S. Army Corps of Engineers (USACE) employs approximately 34,600 civilian and 650 military employees, and provides engineering services to the Army and to the Nation. The USACE Finance Center in Millington, Tennessee, provides operational finance and accounting support for USACE, including the preparation of USACE Civil Works financial statements. The Finance Center is also responsible for the USACE financial management systems—performing research, analysis, development, installation, and maintenance.

Federal Financial Management Improvement Act of 1996. The Federal Financial Management Improvement Act of 1996 requires that a reporting entity's financial reporting systems substantially comply with Federal management systems requirements, Federal accounting standards, and the U.S. Standard General Ledger (USSGL) at the transaction level.

Federal Accounting System Requirements. The financial reporting system is one component of the financial management system. The financial reporting system should include audit trails to the systems where data was originally entered, and to adjustments that have been made. Audit trails are critical to providing documentary support for transactions and balances maintained by the Core financial system.

The Joint Financial Management Improvement Program provides requirements for Federal financial management systems in two documents: the "Framework for Federal Financial Management Systems," January 1995, and "Core Financial System Requirements," November 2001. The Joint Financial Management Improvement Program defines an integrated financial management system as "a unified set of financial systems and the financial portions of mixed systems encompassing the software, hardware, personnel, processes (manual and automated), procedures, controls, and data necessary to carry out financial management functions, manage financial operations of the agency, and report on the agency's financial status to central agencies, Congress, and the public."

DoD Financial Management Regulation. The DoD Financial Management Regulation 7000.14-R (FMR), Volume 1, Chapter 3, implements financial management system requirements for DoD. Volume 1, Chapter 3 states that audit trails are a key accounting requirement with which DoD accounting systems must reasonably comply. Financial transactions must be adequately supported and traceable to individual source records. Audit trails facilitate the tracing or replicating of a transaction from its source to the resulting record or report, and from the resulting record or report back to the source.

The DoD FMR, Volume 6A, Chapter 2 requires that any adjustment be supported by written documentation with enough detail to provide an audit trail to the source transaction requiring the adjustment. The written documentation should include:

- the rationale or justification for the adjustment,

- detailed number and dollar amounts,
- the date of the adjustment, and
- the name and position of the individual approving the adjustment.

U.S. Government Standard General Ledger Codes. The USSGL chart of accounts includes both proprietary and budgetary general ledger account codes (GLACs). Proprietary GLACs are used to record assets, liabilities, equity, revenues, expenses, and miscellaneous gains and losses. Budgetary GLACs are used to record the receipt and use of budgetary authority provided by the Congress. Each USSGL GLAC is identified by a basic four-digit number to which Federal agencies are allowed to add digits to meet agency-specific requirements. Although agencies may expand the numbering system, their subsidiary accounts must consolidate into the four-digit USSGL GLACs plus any applicable attributes. The U.S. Treasury Financial Management Service defines the GLACs that make up the USSGL in Treasury Financial Manual releases.

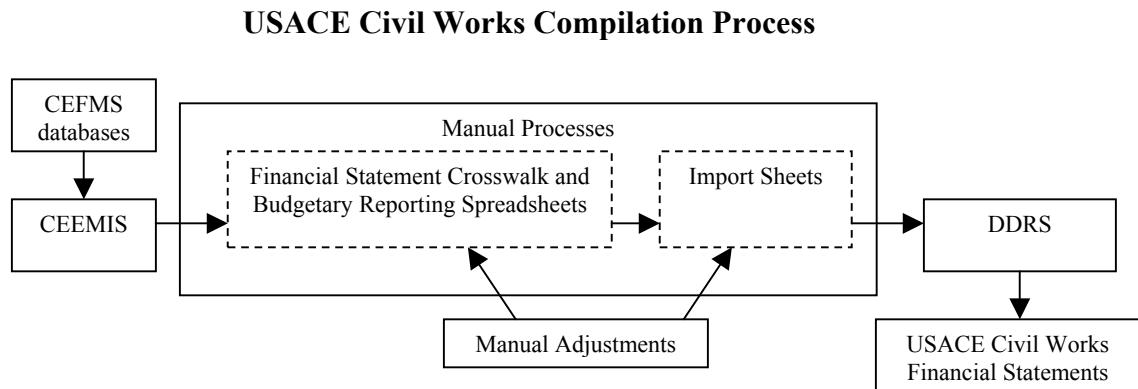
USACE Civil Works Financial Statements. The USACE Civil Works principal financial statements consist of a consolidated balance sheet, consolidated statements of net cost and changes in net position, and combined statements of budgetary resources and financing. Table 1 shows reported amounts for total assets, total liabilities, net cost of operations, and total budgetary resources.

Table 1. Selected USACE Civil Works Financial Statement Amounts (in billions)		
	<u>Year-end FY 2003</u>	<u>First Quarter FY 2004</u>
Total Assets	\$38.4	\$42.1
Total Liabilities	3.5	2.9
Net Cost of Operations	9.0	0.8
Total Budgetary Resources	14.8	11.6

Table 1. Selected USACE Civil Works Financial Statement Amounts (in billions)	Year-end FY 2003	First Quarter FY 2004
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Compilation of the Financial Statements. The three financial systems related to the compilation, or preparation, of the USACE Civil Works financial statements are the Corps of Engineers Financial Management System (CEFMS), the Corps of Engineers Enterprise Management Information System (CEEMIS), and the Defense Departmental Reporting System – Audited Financial Statements (DDRS). CEFMS is a field level system that records financial transactions into 61 databases. Each month, CEFMS automatically transmits a general ledger trial balance from each database to CEEMIS. CEEMIS consolidates this financial information to create general ledger account balances at the appropriation level. DDRS produces the USACE Civil Works financial statements based on the

USSGL chart of accounts and standard attributes. Each quarter the Finance Center manually transfers the data from CEEMIS into DDRS. The following figure illustrates the USACE Civil Works compilation process.



Finance Center personnel used import sheets to transfer the CEEMIS trial balance data into DDRS. Six-digit GLACs comprise the chart of accounts used in both CEFMS and CEEMIS. For example, CEFMS and CEEMIS use 19 different GLACs (1010.10 through 1010.54) to represent Fund Balance With Treasury, while the USSGL uses only 1010. To facilitate posting to the import sheets, Finance Center personnel used financial statement crosswalk spreadsheets (crosswalk spreadsheets) to assign the six-digit CEEMIS GLACs to the corresponding four-digit USSGL GLACs. Once Finance Center personnel entered the crosswalk spreadsheet information onto the import sheets, the data were then uploaded into DDRS.

Finance Center personnel also used budgetary reporting spreadsheets to reconcile the CEEMIS budgetary data. Any adjustments to budgetary GLACs should appear on these spreadsheets. Finance Center personnel used the data from the budgetary reporting spreadsheets to populate the budgetary GLACs on the import sheets.

Objectives

Our overall audit objective was to determine whether USACE had effective controls over the transfer of financial information from CEEMIS to DDRS. We also reviewed the management control program as it related to the overall objective. See Appendix A for a discussion of the scope and methodology, prior coverage related to the objectives, and our review of the management control program.

Data Transfer Procedures

The Finance Center did not have effective controls to ensure accounting information transferred from CEEMIS to DDRS was reliable. During the transfer process, Finance Center personnel made \$3.1 billion (net value)* in undocumented adjustments at year-end FY 2003, and \$(323.8) million (net value) in undocumented adjustments at first quarter FY 2004.

Finance Center personnel made these undocumented adjustments because DoD policy and Federal system requirements for making accounting adjustments were not adequately implemented. Specifically, the Finance Center standard operating procedures:

- contained obsolete guidance,
- provided inadequate guidance for making adjustments in the information transfer process,
- did not ensure crosswalk spreadsheets were current and correct, and
- did not ensure that adjustments documented on the budgetary reporting spreadsheets were consistently applied or made.

As a result, the financial information imported into DDRS and used to prepare the USACE Civil Works financial statements was unreliable.

Accounting Adjustments

The audit trail between CEEMIS and DDRS was lost because of the undocumented accounting adjustments made between the crosswalk spreadsheets, the budgetary reporting spreadsheets, and the import sheets. Undocumented accounting adjustments, totaling \$3.1 billion (net value) at year-end FY 2003 and \$(323.8) million (net value) at first quarter FY 2004, occurred during the manual compilation processes. See Appendix B for a detailed list of the undocumented adjustments, listed by GLAC. Finance Center personnel used manual processes, which rendered the compilation process vulnerable to human errors and misstatements. Although the crosswalk spreadsheet and the budgetary reporting spreadsheet contain adjustment columns to record adjustments made to the CEEMIS trial balance data, Finance Center personnel did not record all the adjustments. In addition, there is no place on the import sheet to record adjustments, yet Finance Center personnel made adjustments while transferring the data from the crosswalk spreadsheets into the DDRS.

* The net value is the arithmetic sum of all undocumented adjustments. Parentheses indicate a negative value.

Standard Operating Procedures

Finance Center personnel made undocumented adjustments despite DoD policy and Federal system requirements. Finance Center standard operating procedures were inadequate in four main areas of practice.

Obsolete Procedures. Desk Operating Procedure (DOP) 089, “Audited Financial Statements (AFS) Compilation Process,” December 7, 2002, includes obsolete procedures. The Finance Center Director of Accounting instructed personnel to discontinue processing adjustments in CEEMIS during August 2003. However, DOP 089 states Finance Center personnel should record adjustments to reconcile the crosswalk spreadsheets in CEEMIS, and post the adjustments to the crosswalk spreadsheets. DOP 089 also erroneously indicates that any adjustment outside of DDRS is recorded in CEEMIS.

Adjustment Procedures. DOP 089 does not provide documentation requirements for adjustments not recorded in CEEMIS or DDRS. DOP 089 provides vague guidance on recording CEEMIS and DDRS adjustments in accordance with DoD FMR policy and procedures. The FMR citation does not reference the volume and chapter of the FMR. DOP 089 should include either a specific reference to DoD FMR, Volume 6A, Chapter 2 or explain the documentation requirements in detail. Properly supported adjustments should include an explanation for the adjustment, detailed number and dollar values, the date of the adjustment, and proper approval.

Crosswalk Spreadsheets. There were no documented procedures to ensure that the crosswalk spreadsheets are up to date and free of errors. While DOP 089 describes the use of the crosswalk spreadsheets, it does not discuss maintenance. The crosswalk spreadsheets must be current and correct to ensure that a clear audit trail exists between DDRS and the CEEMIS trial balance data. For example, our examination of the FY 2003 financial data discovered an error in the crosswalk spreadsheets that lost the audit trail between the \$4.3 billion in Appropriations Used reported on the Year-End FY 2003 USACE Civil Works Consolidated Statement of Changes in Net Position – Unexpended Appropriations, and the \$7.9 billion in Unexpended Appropriations – Used (GLAC 3107.00) contained in CEEMIS. The crosswalk spreadsheets used Expended Appropriations (GLAC 5700.00) instead of GLAC 3107.00. GLAC 3107.00 did not appear on the spreadsheets. Although Finance Center personnel corrected this error before the First Quarter FY 2004 compilation process, the audit trail to the published Year-End FY 2003 financial statements was lost.

Budgetary Reporting Spreadsheets. DOP 089 does not discuss the compilation procedures for budgetary GLACs. In addition, there was an inconsistency in the application of adjustments recorded on the budgetary reporting spreadsheets to the USACE Civil Works data. While some adjustments accounted for or decreased the difference between the CEEMIS and the DDRS amounts, other adjustments created or increased differences.

- The budgetary reporting spreadsheet for 96 X 3123 0000 contained a \$53.2 million adjustment to GLAC 4160 (Anticipated Transfers – Current-Year Authority) that documented the entire difference between the CEEMIS and the DDRS amounts.
- The budgetary reporting spreadsheet for appropriation 96 X 8862 0000 contained a \$17.6 million adjustment to GLAC 4700 (Commitments) although there is no difference between the unadjusted CEEMIS trial balance amount and the import sheet amount.
- The budgetary reporting spreadsheet for 96 X 3130 0000 contained a \$100.5 million adjustment to GLAC 4510 (Apportionments) although there was only a \$5.6 million difference between the CEEMIS and the DDRS amounts.

Financial Statement Effect

Financial information used to prepare the USACE Civil Works Year-End FY 2003 and First Quarter FY 2004 Financial Statements was unreliable. Without an audit trail, the accuracy and completeness of the USACE financial data could not be confirmed. The lack of an audit trail, created by the undocumented adjustments, resulted in the inability to trace amounts reported on the financial statements to the transaction source. The magnitude of the undocumented adjustments made by the Finance Center was sufficient to preclude a favorable opinion on the financial statements. Table 2 provides the net effect of the undocumented adjustments on the Year-End FY 2003 and First Quarter FY 2004 USACE Civil Works Financial Statements.

Table 2. Net Financial Statement Effect of Undocumented Adjustments
(in billions)

<u>Financial Statement</u>	<u>Adjustments (decrease)</u>	
	<u>Year-End FY 2003</u>	<u>First Quarter FY 2004</u>
Balance Sheet	\$2.9	\$2.7
Statement of Net Cost	(0.1)	(0.0)*
Statement of Changes in Net Position – Cumulative Results of Operations	3.1	(3.9)
Statement of Changes in Net Position – Unexpended Appropriations	(3.0)	1.2
Statement of Financing	(0.2)	(0.1)
Statement of Budgetary Resources	0	(0.3)

* the net statement effect was \$(14.9) million.

Command Actions

Finance Center personnel are developing an automated program that compares, by four-digit USSGL, the CEEMIS trial balance data to the financial information entered into the import sheets. This program should allow accountants to identify any adjustments to the USACE financial information. These identified adjustments will need to be documented, supported, and reviewed in accordance with the DoD FMR, Volume 6A, Chapter 2.

USACE will begin implementation of the Defense Departmental Reporting System – Budgetary during the FY 2004 compilation process. CEEMIS trial balances may be imported directly into the Defense Departmental Reporting System – Budgetary. The six-digit CEEMIS GLACs will be assigned to the four-digit USSGL GLACs using crosswalks internal to Defense Departmental Reporting System – Budgetary. The Defense Departmental Reporting System – Budgetary crosswalks, similar to the predecessor spreadsheets, require maintenance to remain current and up to date. This maintenance remains the responsibility of the Finance Center. While the implementation of Defense Departmental Reporting System – Budgetary may help document the adjustments to the CEEMIS trial balance data, the Finance Center procedures need to ensure that the support and review requirements are met.

Recommendation and Management Comments

We recommend that the Director, U.S. Army Corps of Engineers Finance Center revise Desk Operating Procedure 089, "Audited Financial Statements (AFS) Compilation Process," December 7, 2002. At a minimum the procedure should:

- 1. Reflect the current processes used to transfer the Corps of Engineers Enterprise Management Information System trial balance data to the Defense Departmental Reporting System – Audited Financial Statements.**
- 2. Specify that all adjustments to the U.S. Army Corps of Engineers financial data be documented, supported, and approved in accordance with the DoD Financial Management Regulation, DoD 7000.14-R, Volume 6A, Chapter 2.**
- 3. Establish a requirement to update the desk operating procedure annually.**
- 4. Institute a quarterly review of the crosswalks to ensure that all Corps of Engineers Enterprise Management Information System general ledger accounts and corresponding U.S. Standard General Ledger accounts with attributes are included.**
- 5. Direct U.S. Army Corps of Engineers Finance Center personnel to perform all manual processes consistently.**

Management Comments. USACE concurred and stated that the actions on Recommendation parts 1., 2., and 3. would be completed August 2004, and the actions on Recommendation parts 4. and 5. would be completed June 2004. On July 12, 2004, USACE informed us that all parts of the Recommendation are complete.

Appendix A. Scope and Methodology

We reviewed the controls over the transfer of USACE Civil Works financial data from the CEEMIS to the DDRS. We reviewed the procedures and processes used by Finance Center personnel during the transfer process to determine whether the audit trail between the CEEMIS and the Year-End FY 2003 and First Quarter FY 2004 USACE Civil Works was complete.

We analyzed Finance Center procedures related to the compilation of the USACE Civil Works financial statements. We examined the procedures used to produce the CEEMIS trial balances as of December 31, 2003, and determined their completeness. In addition, we performed an automated test of the compilation process, from the CEEMIS trial balances as of September 30, 2003, and December 31, 2003, to the Year-End FY 2003 and First Quarter FY 2004 USACE Civil Works Financial Statements. We also analyzed the plan for implementation of the Defense Departmental Reporting System – Budgetary at the Defense Finance and Accounting Service and the Finance Center.

We performed this audit from January 2004 through April 2004 in accordance with generally accepted government auditing standards.

Scope Limitation. We did not review the apparent variances between the balances reported on the Year-End FY 2003 and the First Quarter FY 2004 financial statements. For example, Net Cost of Operations of \$9 billion was reported for Year-End FY 2003 and \$0.8 billion for the First Quarter FY 2004. We would have expected a proportional relationship for the Net Cost of Operations reported in the financial statements for Year-End FY 2003 and First Quarter FY 2004. The purpose of this audit was not to verify the information recorded in CEFMS or CEEMIS.

Use of Computer-Processed Data. We used trial balance data queried out of the CEEMIS database to perform our analysis. We used the CEEMIS trial balance data as the starting point in our analysis of the transfer of the data from the CEEMIS into the DDRS. The objective of this audit was to examine the controls over this transfer process, not to determine the reliability of the financial data prior to the transfer. As such, we did not perform any detailed reliability testing of the CEEMIS trial balance data. The CEEMIS trial balance data, when reviewed in context with the other available evidence, validate the opinions, conclusions, and recommendations in this report.

Government Accountability Office High-Risk Area. The Government Accountability Office has identified several high-risk areas in DoD. This report provides coverage of the Defense Financial Management high-risk area.

Management Control Program Review

DoD Directive 5010.38, “Management Control (MC) Program,” August 26, 1996, and DoD Instruction 5010.40, “Management Control (MC) Program Procedures,”

August 28, 1996, require DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

Scope of the Review of the Management Control Program. We reviewed the management controls over the USACE Civil Works financial information imported into the DDRS. Specifically, we reviewed the Finance Center procedures to transfer data from CEEMIS into the import sheets. We also reviewed the adequacy of management's self-evaluation of those controls.

Adequacy of Management Controls. We identified a material management control weakness for USACE, as defined by DoD Instruction 5010.40. USACE management controls for the transfer of CEEMIS trial balance data into DDRS were not adequate to ensure that a complete audit trail existed between amounts reported on the USACE Civil Work financial statements and their source transactions. The recommendation, if implemented, will improve controls over the transfer of financial information from CEEMIS into DDRS. A copy of the report will be provided to the senior official responsible for management controls in USACE.

Adequacy of Management's Self-Evaluation. USACE officials did not identify financial statement compilation as an assessable unit and, therefore, did not identify or report the material management control weakness identified by the audit.

Prior Coverage

During the last 5 years, the Inspector General of the Department of Defense (IG DoD) has issued three reports discussing the compilation of the USACE Civil Works financial statements. Unrestricted IG DoD reports can be accessed at <http://www.dodig.osd.mil/audit/reports>.

IG DoD

IG DoD Report No. D-2004-032, "Independent Auditor's Report on the U.S. Army Corps of Engineers, Civil Works, Fiscal Year 2003 Principal Financial Statements," December 3, 2003

IG DoD Report No. D-2004-023, "Corps of Engineers Financial Management System Accounting Processes," November 18, 2003

IG DoD Report No. D-2003-043, "Independent Auditor's Report on the U.S. Army Corps of Engineers, Civil Works, Fiscal Year 2002 Principal Financial Statements," January 6, 2003

Appendix B. Adjustments Listed by General Ledger Account

<u>Undocumented Adjustments (decrease)</u>			
	<u>General Ledger Account</u>	<u>Year-End FY 2003</u>	<u>First Quarter FY 2004</u>
1010	Fund Balance With Treasury	\$47,116,827.92	\$(19,267,700.18)
1310	Accounts Receivable	76,541.02	No Difference
1319	Allowance for Loss on Accounts Receivable	23,515.77	(7,140.21)
1340	Interest Receivable	11,682,950.32	35,048,850.94
1410	Advances to Others	13,125,885.13	No Difference
1511	Operating Materials and Supplies Held for Use	(101,702.18)	No Difference
1512	Operating Materials and Supplies Held in Reserve for Future Use	101,702.18	No Difference
1524	Inventory – Excess, Obsolete, and Unserviceable	(55,230.01)	No Difference
1525	Inventory – Raw Materials	11,106.81	No Difference
1610	Investments in U.S. Treasury Securities Issued by the Bureau of the Public Debt	2,380,114,000.00	2,583,104,000.00
1611	Discount on U.S. Treasury Securities Issued by the Bureau of the Public Debt	(2,946,536.46)	(2,946,536.46)
1612	Premium on U.S. Treasury Securities Issued by the Bureau of the Public Debt	126,417,229.06	126,417,229.06
1613	Amortization of Discount and Premium on U.S. Treasury Securities Issued by the Bureau of the Public Debt	(36,814,070.26)	(46,335,965.24)

<u>Undocumented Adjustments (decrease)</u>		
<u>General Ledger Account</u>	<u>Year-End FY 2003</u>	<u>First Quarter FY 2004</u>
1711 Land and Land Rights	701,445,715.49	No Difference
1720 Construction-in-Progress	68.05	No Difference
1730 Buildings, Improvements, and Renovations	37,052.44	No Difference
1739 Accumulated Depreciation on Buildings, Improvements, and Renovations	(761.17)	No Difference
1740 Other Structures and Facilities	324,160.38	No Difference
1749 Accumulated Depreciation on Other Structures and Facilities	(468.75)	No Difference
1750 Equipment	115,187.50	No Difference
1759 Accumulated Depreciation on Equipment	(68,178.93)	No Difference
2150 Payable for Transfers of Currently Invested Balances	(103,938,327.73)	33,721,639.24
2210 Accrued Funded Payroll and Leave	(45,528,547.69)	(25,925,297.61)
2213 Employer Contributions and Payroll Taxes Payable	31,510,071.61	25,622,806.55
2215 Other Post-Employment Benefits Due and Payable	316,289.02	302,491.06
2225 Unfunded FECA Liability	(40,651,891.96)	No Difference
2980 Custodial Liability	No Difference	663,561.08
2990 Other Liabilities	(137,333,350.33)	(656,420.87)
3100 Unexpended Appropriations – Cumulative	(746,952,438.40)	1,726,498,118.82
3101 Unexpended Appropriations – Appropriations Received	5,692,708,047.39	147,304,479.66

<u>Undocumented Adjustments (decrease)</u>		
<u>General Ledger Account</u>	<u>Year-End FY 2003</u>	<u>First Quarter FY 2004</u>
3102 Unexpended Appropriations – Transfers-In	(50,887,110.81)	(132,854,803.96)
3106 Unexpended Appropriations – Adjustments	34,854,736.02	No Difference
3107 Unexpended Appropriations – Used	(7,890,394,468.87)	(505,555,456.54)
3310 Cumulative Results of Operations	(4,604,329,854.56)	(4,234,774,868.30)
4114 Appropriated Trust or Special Fund Receipts	3,570,861,248.09	301,705,194.36
4119 Other Appropriations Realized	4,027,056,421.00	1,797,034,181.54
4124 Amounts Appropriated From Specific Treasury-Managed Trust Fund TAFS – Payable – Rescinded	(19,500.00)	No Difference
4126 Amounts Appropriated From Specific Treasury-Managed Trust Fund TAFS – Receivable	327,164,373.18	37,924,102.00
4128 Amounts Appropriated From Specific Treasury-Managed Trust Fund TAFS – Payable	34,000,000.00	No Difference
4145 Borrowing Authority Converted to Cash	(1,530,000.00)	No Difference
4148 Resources Realized From Borrowing Authority	1,530,000.00	No Difference
4149 Borrowing Authority Carried Forward	31,840,420.65	30,310,420.65
4166 Allocations of Realized Authority – To Be Transferred From Invested Balances	No Difference	33,121,639.24

<u>Undocumented Adjustments (decrease)</u>		
<u>General Ledger Account</u>	<u>Year-End FY 2003</u>	<u>First Quarter FY 2004</u>
4167 Allocations of Realized Authority – Transferred From Invested Balances	(681,563,061.35)	(40,510,774.97)
4170 Transfers – Current-Year Authority	(16,954,941.00)	No Difference
4171 Non-Allocation Transfers of Invested Balances – Receivable	309,000.00	No Difference
4175 Allocation Transfers of Current-Year Authority for Non-Invested Accounts	301,425,172.16	173,365,579.43
4176 Allocation Transfers of Prior-Year Balances	No Difference	(0.50)
4201 Total Actual Resources – Collected	2,332,803,047.15	4,809,091,655.45
4210 Anticipated Reimbursements and Other Income	3,210,344,407.19	3,464,909,758.10
4222 Unfilled Customer Orders With Advance	(11,709,269.78)	(12,588,763.52)
4251 Reimbursements and Other Income Earned – Receivable	19,209,120.61	23,386,184.94
4252 Reimbursements and Other Income Earned – Collected	3,729,740,273.28	737,879,641.53
4321 Actual Recoveries of Prior Year Obligations – Direct	No Difference	5,000.00
4330 Funds Generated from Prior Year Recoveries	No Difference	(5,000.00)
4394 Receipts Unavailable for Obligation Upon Collection	(53,087,765.50)	(63,246,110.32)
4450 Unapportioned Authority	No Difference	(2.37)
4510 Apportionments	(370,048,176.87)	(921,176,839.76)

<u>Undocumented Adjustments (decrease)</u>			
	<u>General Ledger Account</u>	<u>Year-End FY 2003</u>	<u>First Quarter FY 2004</u>
4578	Program Received, Available, or Applied – Installation	566,155,883.82	1,048,359,101.45
4580	Allotments Received	(12,002,844,417.66)	(9,109,556,973.26)
4581	Automatic Reimbursement Authority	(1,114,191,379.80)	(1,206,499,532.06)
4582	Allotted Funded Reimbursement Authority – Current Period	(2,196,731,763.41)	(1,624,714,492.64)
4610	Allotments – Realized Resources	1,798,806,903.14	3,207,625,307.50
4620	Unobligated Funds Not Subject to Apportionment	(2,557,638,237.11)	(3,542,551,684.11)
4630	Funds Not Available for Commitment/Obligation	(5,152.69)	52,873,745.20
4650	Allotments – Expired Authority	(8,486.73)	(8,486.73)
4700	Commitments	(1,493.14)	1,161,525,000.22
4802	Undelivered Orders – Obligations, Prepaid/Advanced	(316,848.09)	(899,803.31)
4901	Delivered Orders – Obligations, Unpaid	(445,888,409.02)	(346,935,386.16)
4902	Delivered Orders – Obligations, Paid	(498,707,368.12)	(343,462,219.77)
5200	Revenue From Services Provided	0	(26,122,358.16)
5310	Interest Revenue – Other	(56,700,660.14)	No Difference
5311	Interest Revenue – Investments	No Difference	(14,910,789.51)
5320	Penalties, Fines, and Administrative Fees Revenue	No Difference	232.29

<u>Undocumented Adjustments (decrease)</u>		
<u>General Ledger Account</u>	<u>Year-End FY 2003</u>	<u>First Quarter FY 2004</u>
5600 Donated Revenue – Financial Resources	(100,328.50)	No Difference
5610 Donated Revenue – Nonfinancial Resources	100,328.50	No Difference
5700 Expended Appropriations	7,815,975,986.51	491,105,780.82
5750 Expenditure Financing Sources – Transfers-In	(10,000,000.00)	(10,000,000.00)
5765 Nonexpenditure Financing Sources – Transfers-Out	783,954,941.00	No Difference
5800 Tax Revenue Collected	(838,803,382.08)	(167,306,307.66)
5900 Other Revenue	(28.48)	26,134,361.73
5909 Contra Revenue for Other Revenue	No Difference	15.32
5990 Collections for Others	(10,213.50)	(11,873.57)
5991 Accrued Collections for Others	10,241.98	(362.29)
6100 Operating Expenses/Program Costs	39,241.09	No Difference
6720 Bad Debt Expense	(235,889.15)	(278.20)
6730 Imputed Costs	(36,214.70)	No Difference
8801 Offset for Purchases of Capitalized Assets	No Difference	(34,566,385.80)
8802 Purchases of Capitalized Assets	<u>No Difference</u>	<u>34,566,385.80</u>
Total	\$3,074,172,170.53	\$ (323,792,150.06)

Appendix C. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense (Comptroller)/Chief Financial Officer
Deputy Chief Financial Officer
Deputy Comptroller (Program/Budget)

Department of the Army

Assistant Secretary of the Army (Financial Management and Comptroller)
Commander, U.S. Army Corps of Engineers
Auditor General, Department of the Army

Department of the Navy

Naval Inspector General
Auditor General, Department of the Navy

Department of the Air Force

Auditor General, Department of the Air Force

Combatant Command

Inspector General, U.S. Joint Forces Command

Non-Defense Federal Organization

Office of Management and Budget

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

Senate Committee on Appropriations

Senate Subcommittee on Defense, Committee on Appropriations

Senate Committee on Armed Services

Senate Committee on Governmental Affairs

House Committee on Appropriations

House Subcommittee on Defense, Committee on Appropriations

House Committee on Armed Services

House Committee on Government Reform

House Subcommittee on Government Efficiency and Financial Management, Committee on Government Reform

House Subcommittee on National Security, Emerging Threats, and International Relations, Committee on Government Reform

House Subcommittee on Technology, Information Policy, Intergovernmental Relations, and the Census, Committee on Government Reform

U.S. Army Corps of Engineers Comments

 <p>REPLY TO ATTENTION OF:</p>	<p>DEPARTMENT OF THE ARMY U.S. Army Corps of Engineers WASHINGTON, D.C. 20314-1000</p>
CEIR (36-2b)	22 June 2004
<p>MEMORANDUM FOR Director, Defense Financial Auditing Service, Inspector General Department of Defense. 400 Army Navy Drive, Arlington, VA 22202</p>	
<p>SUBJECT: Report on U.S. Army Corps of Engineers Financial Information Imported into the Defense Departmental Reporting System – Audited Financial Statements. (Project No. D2004FI-0067)</p>	
<p>1. The USACE response to each Department of Defense Inspector General (DoDIG) report recommendations follows:</p>	
<p>2. <u>Report Recommendations.</u></p>	
<p>We recommend that the Director, U.S. Army Corps of Engineers Finance Center revise Desk Operating Procedure 089, "Audited Financial Statements (AFS) Compilation Process," December 7, 2002. At a minimum the procedure should:</p>	
<p>Recommendation Number 1. Recommendation. Reflect the current processes used to transfer the Corps of Engineers Enterprise Management Information System trial balance data to the Defense Departmental Reporting System – Audited Financial Statements.</p>	
<p>Command Response. Concur: The target completion date is August 2004.</p>	
<p>Recommendation Number 2. Recommendation. Specify that all adjustments to the U.S. Army Corps of Engineers financial data be documented, supported, and approved in accordance with the DoD Financial Management Regulation, DoD 7000.14-R, Volume 6A, Chapter 2.</p>	
<p>Command Response. Concur: The target completion date is August 2004.</p>	
<p>Recommendation Number 3. Recommendation. Establish a requirement to update the desk operating procedure annually.</p>	
<p>Command Response. Concur: The target completion date is August 2004.</p>	

CEIR (36-2b) 22 June 2004
SUBJECT: Report on U.S. Army Corps of Engineers Financial Information Imported into the Defense
Departmental Reporting System – Audited Financial Statements.
(Project No. D2004FI-0067)

Recommendation Number 4.

Recommendation. Institute a quarterly review of the crosswalk to ensure that all Corps of Engineers Enterprise Management Information System general ledger accounts and corresponding U.S. Standard General Ledger accounts with attributes are included.

Command Response. Concur:

The target completion date is June 2004.

Recommendation Number 5.

Recommendation. Direct U.S. Army Corps of Engineers Finance Center personnel to perform all manual processes consistently.

Command Response. Concur:

The target completion date is June 2004.

3. The POCs for this response are Mr. Imtiaz Badar (202) 761-1987 or Ms. Cynthia Blevins (901) 874-8408.

FOR THE COMMANDER:


DON J. RIPP
Chief, Audit Executive
U.S. Army Corps of Engineers

Team Members

The Office of the Deputy Inspector General for Auditing of the Department of Defense, Defense Financial Auditing Service prepared this report. Personnel of the Office of the Inspector General of the Department of Defense who contributed to the report are listed below.

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